

Message Text

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DOD FOR OSD/ISA

E. O. 11652: GDS
TAGS: ECON, IS
SUBJECT: ISRAEL MILITARY FINANCING

1. IN CONVERSATION WITH EMBASSY OFFICER, MOD ECONOMIC ADVISOR YAACOV LIFSHITZ COMMENTED THAT HE WAS SOMEWHAT CONFUSED AFTER THE DISCUSSION IN WASHINGTON ABOUT THE FY 80 AID PACKAGE. HE HAD GIVEN A DETAILED PRESENTATION OF THE NEED FOR A \$1.5 BILLION MILITARY AID PACKAGE IN 1980 INSTEAD OF THE CURRENT \$1.0 BILLION, BUT FELT THAT HE DID NOT MAKE A MAJOR IMPRESSION ON THE US SIDE. THE MOD HAS HAD NUMEROUS VISITORS IN THE PAST TWO YEARS DISCUSSING ISRAEL'S MILITARY REQUIREMENTS, AND THE US IS AWARE OF ISRAEL'S HARDWARE NEEDS; BUT WHEN IT COMES TO FINANCING, THE REAL VALUE OF THE \$1 BILLION HAS FALLEN BY 50 PERCENT OVER A THREE-YEAR PERIOD, REPRESENTING A TREMENDOUS LOSS IN PURCHASING POWER FOR THE MOD. IF THE FOREIGN AID PACKAGE WERE RESTRUCTURED SO THAT MILITARY AID WOULD TAKE A LARGER PORTION OF TOTAL AID, THIS MIGHT BE ONE SOLUTION. AS NEAR AS HE COULD FIGURE IT, CLOSE TO \$800 MILLION IS ALREADY COMMITTED IN FY 80 FOR PLANNED PURCHASES AND
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IF FMS IS KEPT TO \$1 BILLION, THE MOD WILL HAVE A HARD TIME FINANCING OTHER PAYMENTS WHICH IT SURELY WILL HAVE TO MAKE.

2. ECONOMIC IMPLICATIONS OF CAMP DAVID AGREEMENTS

- LIFSHITZ SAID THAT THE GOI IS STILL TRYING TO

FIGURE OUT PRELIMINARY ESTIMATES OF THE COST FOR ISRAELI WITHDRAWAL FROM SINAI. PUBLISHED FIGURES OF \$1 BILLION A YEAR OVER THE NEXT THREE YEARS ARE UN-REALISTIC AND HE DOES NOT KNOW WHERE THE NEWSPAPERS GET THE NUMBERS, SINCE THE MOD HAS NOT MADE ANY ESTIMATE YET. IT IS NOT SURE EVEN HOW AN ASSISTANCE REQUEST TO THE USG WOULD BE STATED--WHETHER THE ISRAELIS WILL DO THE WORK AND GIVE THE USG A BILL, WHETHER FOREIGN CURRENCY COSTS OF ISRAELI WITHDRAWAL WILL BE ESTIMATED AND PRESENTED TO THE USG OR WHETHER A US CONTRACTOR WILL BE CALLED IN TO HELP BUILD THE BASES WITH THE USG COVERING THE COST.

- FOR THE PRESENT, PLANNING GOES ON TWO LINES. THE FMS PROPOSALS ARE GOING FORWARD UNCHANGED, BASED ON MATMON C, WHILE THE ADDITIONAL PURCHASES DUE TO THE CAMP DAVID AGREEMENTS--NEW BASES, NEW EARLY WARNING SYSTEMS, ETC.--ARE BEING PLANNED SEPARATELY.

3. RELOCATION OF BASES AND MILITARY SPENDING

- ACCORDING TO LIFSHITZ, ONE POSSIBILITY UNDER ACTIVE CONSIDERATION IS FOR ONE OF THE NEGEV AIR BASES TO SERVE FOR BOTH MILITARY AND CIVILIAN USES. THE GOI HAS BEEN CONSIDERING BUILDING A NEW INTERNATIONAL AIRPORT BETWEEN BEERSHEVA AND EILAT TO SUPPLEMENT BEN GURION AIRPORT.

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PERHAPS IT COULD MAKE THIS NEW BASE A DUAL-PURPOSE AIRPORT WHICH WOULD HANDLE MILITARY TRAFFIC ALSO. HOWEVER, HE IS NOT SURE THAT SUCH A PROPOSAL IS FEASIBLE. ANOTHER PROBLEM IS WHAT TO DO WITH CURRENT WORK AT ETZION. IF THE GOI CANCELS CURRENT CONTRACTS AT ETZION, IT WILL OWE THE ISRAELI CONTRACTORS IL 20 MILLION TO IL 30 MILLION IN CANCELLATION FEES. IF THE WORK IS COMPLETED, THEN THE EGYPTIANS WILL GET THE BENEFIT OF THE WORK AFTER A PEACE TREATY IS SIGNED. LEWIS

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